QSL Update week ending 10.10.14

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QSL often receives questions regarding its relationship with Sugar Terminals Limited (STL), so this week we answer some common queries on this topic.

Who owns the Bulk Sugar Terminals (BSTs) in Queensland?

As a result of the Sugar Industry Act 1999, ownership of Queensland's BSTs was transferred from the State Government to growers and millers through share allocation in August 2000. Sugar Terminals Limited (STL) was the company formed to represent the new owners.

Who owns shares in STL?

Upon the creation of STL, 360 million STL shares were issued to Queensland's cane growers and millers based on the net asset values of its seven BSTs. These shares were divided into 229.3 million G-class shares for growers and 130.7 million M-class shares for millers. G-class shares are listed on the National Stock Exchange (NSX) but ownership is restricted to eligible sugar cane growers who meet specific requirements regarding farm size and the amount of cane produced. Millers can also hold G-class shares through their farming operations.

Does QSL have STL shares?

Yes. QSL current holds approximately 33,371,965 G-class shares in STL, which represents 14.6 per cent of the G-class shares and 9.3 per cent of total STL shares.

How can QSL hold G-class shares when it's not a grower?

QSL leases a farm specifically to make it eligible to hold G-class STL shares. It sub-leases this farm to a manager so that the lease is cost-neutral to the business.

Why has QSL bought STL shares?

QSL purchased a strategic stake in STL in 2007 to ensure that it would have input in any future discussions on the usage and operation of the terminals. Since this date QSL has intermittently purchased G-class shares from growers in order to help create a market for these shares and subsequently provide liquidity for our members seeking to cash in their shareholdings.

Does QSL actively buy and sell STL shares?

We have not sold any shares from our holding to date and have not actively purchased any shares in the past year. Since 2013 any purchases are done on-market through a NSX-approved stockbroker.

Why does QSL keep its STL shares?

STL G-class share dividends have exceeded QSL's cost of funding resulting in a positive cash return for QSL. Our net profit from the STL shares is passed on to our members via an allocation to the QSL Shared Pool.

What is QSL's relationship to STL?

As well as owning shares in STL, QSL currently holds a five-year lease to operate the six Queensland BSTs, which are located at Cairns, Mourilyan, Lucinda, Townsville, Mackay and Bundaberg. The current lease agreement runs through until 31 December 2018. Under the terms of this lease QSL pays for any maintenance and repairs at the terminals and operates the capital expenditure program for STL for a minimal project management fee.

QSL Annual General Meeting

Growers are reminded that they are welcome to attend the QSL Annual General Meeting, scheduled to be held at the Christie Conference Centre at 320 Adelaide Street, Brisbane, from 2pm on Monday 20 October. QSL's 2013/2014 Annual Report has also been released and is available from our website at www.qsl.com.au or from your local grower representative body.

2014 QSL Pool Performance

All prices quoted below are indicative only and do not include an allocation from the QSL Shared Pool. Growers should always consult their mill for information about their individual cane payments.

QSL Pool - as at 26 September 2014	Gross $A per mt IPS
QSL Harvest Pool	$409
QSL Discretionary Pool	$427
QSL Actively Managed Pool	$430
QSL Guaranteed Floor Pool	$425
QSL Growth Pool	$428
QSL Forward Season Pool (2014)	$421
QSL US Quota Pool	$598

Market Update

By Matthew Page, QSLTreasury Analyst
Current as of 3 October 2014

Sugar

The past fortnight has been fairly up and down in the raw sugar market as the OCT14 contract rolled off the board and prices finally halted the seemingly endless slide they had been on. Week one saw a stunning rally in the prompt month, OCT14 climbing from the canvas and adding 191 points, while MAR15 and MAY15 gains were a little more modest owing to a significant strengthening of the Oct/Mar spread. The final couple of days were a little quieter for OCT14 which eventually rolled off the board at 15.48 c/lb. With the expiry now out of the way the new prompt contract has struggled to hold ground over the last few days and ends the fortnight near to where it began, with downside risk certainly more prominent than upside.

As mentioned, spreads narrowed significantly as they approached expiry. With much of the tonnage already rolled down the board market chatter of some Chinese offtake of the 'low quality' Thai Raws buoyed market sentiment somewhat. However, once expiry had occurred and the volume that had been delivered to the October tape was more apparent the bearish momentum descended once again.

UNICA figures released in the first week finally started to show signs that the Brazil crush was slowing as anticipated. Figures showed the first half of September down to 39.9 million tonnes of cane processed compared to 47.4 for second half of August, translating to half a million tonnes less of sugar (2.5 million). Production is, of course, expected to wind down now we are past the peak of crushing, but next fortnight's figures will provide more insight into whether this is the beginning of the 'production cliff' many are expecting Brazil to fall off.

Sugar has endured a tough couple of months, with market sentiment at rock bottom as we struggle to battle over supply and weak demand. Unfortunately with a weakening real and continuing hangover of Thai Raws (an estimated 500,000 tonnes still to find homes) the negative sentiment looks set to remain for the short term.

Currency

The move lower in the currency seen over the last month has finally started to abate. This was inevitable given the rapid pace of the A$ sell-off (down over 600 points since the beginning of September).

US data continues to print strongly, providing the USD index plenty of support in moving up to the 85.75 cent level. Commodity currencies really have been struggling to find a stable footing recently but it does appear at least for now that the Aussie has bounced off a key support level around 0.8660. Whether this is a temporary pause or the market finding a bottom remains to be seen.

Medium term, the market will continue to follow general US$ strength in anticipation of the Fed raising rates potentially early in 2015. Downside risk for the A$ remains with only small positives in local and Chinese data able to stem the momentum. For the short term we expect to see some consolidation around these levels with many happy to take profits and continuing appetite for Aussie buyers keen to take advantage of still present yield differentials.